

Message Text

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ACTION EB-07

INFO OCT-01 EUR-12 EA-09 ISO-00 SP-02 AID-05 NSC-05

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FM AMEMBASSY TOKYO

TO SECSTATE WASHDC 4429

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PASS TREASURY, FEDERAL RESERVE AND LABOR

E.O. 11652: N/A

TAGS: ECON, EFIN, ELAB, JA

SUBJECT: FINANCIA AND ECONOMIC DEVELOPMENTS - WEEK OF OCT 22-29

1. SUMMARY. BUSINESS GROUPS REMAIN UNHAPPY OVER SPEED OF ECONOMIC RECOVERY. SLACKENING STEEL DEMAND AND RISING INVENTORIES WILL RESULT IN SOME PRODUCTION CUTBACKS. NEVERTHELESS, TOTAL INDUSTRIAL PRODUCTION PICKED UP AGAIN IN SEPT AND SHARP RISE IN PUBLIC CONSTRUCTION EXPENDITURES IN JULY SUGGEST THAT, OVERALL, THE RECOVERY PROCESS IS CONTINUING. END SUMMARY.

2. INDEX OF MINING AND MANUFACTURING PRODUCTION, SEASONALLY ADJUSTED, (JEI 212) ROSE 1.4 PERCENT IN SEPT ACCORDING TO MITI PRELIMINARY RELEASE. MINING AND MANUFACTURING PRODUCERS' SHIPMENTS (JEI 239) ROSE BY 1.5 PERCENT, AND THE INVENTORY TO SHIPMENTS RATIO (JEI 253) FELL 0.2 PERCENT
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FROM RIOR MONTH. A LARGE DROP IN OUTPUT BY THE SHIP-

BUILDING INDUSTRY WAS A PRINCIPAL DEVELOPMENT DURING THE MONTH; EXCLUDING SHIPS, PRODUCTION ROSE 2.4 PERCENT AND SHIPMENTS, 1.9 PERCENT. NEVERTHELESS, MITI OFFICIALS STRESSED THE HALTING NATURE OF JAPAN'S RECOVERY AS INDICATED BY THE RATHER WEAK SEPT PRODUCTION RISE. MITI CHIEF KOMOTO SAID THERE SHOULD BE A CONSIDERABLE STIMULUS FROM PHASE IV AND WHETHER ADDITIONAL MEASURES MIGHT BE NEEDED WOULD DEPEND ON PACE OF RECOVERY DURING THE NEXT FEW MONTHS. ON THE OTHER HAND, TOSHIO DOKO, PRESIDENT OF KEIDANREN (JAPAN FEDERATION OF ECONOMIC ORGANIZATIONS) SAID THAT IF DIET APPROVAL OF THE GOVERNMENT'S PROPOSED SUPPLEMENTARY BUDGET WERE DELAYED MUCH LONGER KEIDANREN WOULD ASK GOJ FOR A FIFTH ANTI-RECESSION PACKAGE. (FOR DETAILS ON SEPT PRODUCTION SHIPMENTS AND INVENTORIES DEVELOPMENTS, SEE TOKYO 1,5278.) PRODUCTION, SHIPMENTS AND INVENTORY TO SHIPMENTS RATIO SEASONALLY ADJUSTED

(PCT. CH. FROM PRIOR MONTH SHOWN IN PARENTHESES)

	MIN. AND MFG. PRODUCTION	PRODUCERS' SHIPMENTS	INV. TO SHIP. RATIO
JULY	112.9 (2.2)	117.5 (3.0)	175.4 (-2.9)
AUG	111.2 (-1.5)	114.7 (-2.4)	139.6 (3.1)
SEPT	112.8 (1.4)	116.4 (1.5)	139.3 (-0.2)

3. STEEL PRODUCTION CUTBACKS PLANNED. NIPPON STEEL CORPORATION AND OTHER MAJOR STEELMAKERS ARE REPORTEDLY CONSIDERING FURTHER PRODUCTION CUTBACKS IN NOVEMBER. SINCE EARLY OCTOBER, ORDERS FOR ROLLED STEEL FOR SHIPMENT IN NOVEMBER-DECEMBER HAVE FALLEN OFF SHARPLY. MILLS AND WHOLESALERS' STOCKS OF ROLLED ORDINARY STEEL HAVE RISEN TO ABOUT 8.5 MILLION METRIC TONS, FAR ABOVE NORMAL LEVELS. MAJOR MILLS ARE REPORTEDLY CONSIDERING CUTBACKS IN PIG IRON PRODUCTION, BEGINNING NORMAL REPAIRS EARLIER THAN ANTICIPATED, DELAYING STARTUP OF NEWLY BUILT BLAST FURNACES, AND BUILDING UP FINISHED STEEL STOCKS. PRODUCTION INDEX (S.A.) FOR IRON AND STEEL INDUSTRY IN SEPT (AT 111.1 OF 1970 AVERAGE, JEI 214) WAS SLIGHTLY BELOW AVERAGE RATE IN FIRST HALF UNCLASSIFIED

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1975 (112.3). INVENTORIES OF FINISHED IRON AND STEEL PRODUCTS (S.A., JEI 255) ROSE 11PERCENT BETWEEN MARCH AND SEPT AND ARE UP 21 PERCENT FROM YEAR AGO.

4. PUBLIC CONSTRUCTION EXPENDITURES, SEASONALLY ADJUSTED, (JEI 164) REGISTERED ANOTHER STRONG INCREASE IN JULY FOLLOWING THE SHARP RISE IN THE PREVIOUS MONTH. THE SERIES (WHICH RECORDS ACTUAL CASH EXPENDITURES

RATHER THAN ORDERS) NORMALLY SURGES TO SEASONALLY VERY HIGH RATES AT YEAR-END AND IN THE SPRING. NEVERTHELESS, THE RATE OF PAYMENTS FOR PUBLIC CONSTRUCTION WORK IN JUNE AND JULY WAS VERY LARGE, WITH THE SEASONALLY ADJUSTED AVERAGE FOR THESE MONTHS EXCEEDING THE MONTHLY S.A. AVERAGE FOR THE PREVIOUS PEAK QUARTER (OCT-DEC 1974) BY 27 PERCENT.

PUBLIC CONSTRUCTION EXPENDITURE (S.A.)
(BILLION YEN) (PCT. CH. FROM PRIOR MO.)

MAY	1,786	38.0
JUNE	3,136	75.6
JULY	3,977	26.8

5. JAPANESE BOND FLOTATIONS IN ARAB COUNTRIES ARE INCREASING RAPIDLY. IN THE PAST SIX MONTHS PUBLIC BOND OFFERINGS IN ARAB COUNTRIES BY JAPANESE FIRMS HAVE REACHED \$165 MILLION, NEARLY 25 PERCENT OF THE TOTAL \$684 MILLION JAPANESE OVERSEAS BOND FLOTATIONS FOR THIS PERIOD. THE 25 PERCENT SHARE, LARGER THAN THE EUROMARKET, IS ESPECIALLY REMARKABLE SINCE THE VERY FIRST JAPANESE BOND FLOTATION IN AN ARAB COUNTRY OCCURRED AS RECENTLY AS MARCH OF THIS YEAR. A SECURITIES INDUSTRY SOURCE REPORTS THAT ARAB INVESTORS APPEAR MOST INTERESTED IN THE BONDS OF "BLUE CHIP" COMPANIES SUCH AS HONDA MOTOR, MITSUBISHI CORPORATION, AND BANK OF TOKYO. HALF OF THE FLOTATIONS, THOSE BY MITSUBISHI CORPORATION, TOKYO SHIBAURA ELECTRIC, AND MITSUI OSK LINES, WERE FOR CONVERTIBLE ISSUES. THE BOND FLOTATIONS HAVE THUS FAR BEEN CONFINED TO THE KUWAIT MARKET WITH THE SIZE OF INDIVIDUAL OFFERS RANGING BETWEEN 20-30 MILLION DOLLARS. THE SECURITIES INDUSTRY SOURCE SAID THAT THE TENDENCY FOR THESE ISSUES

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TO BE PUBLICALLY RATHER THAN PRIVATELY PLACED REFLECTED INFORMAL GUIDANCE BY GOJ AUTHORITIES.
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